

Message Text

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E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- MAY 19-25

1. SUMMARY: PRESS COVERAGE OF SECRETARY BLUMENTHAL'S INTERNATIONAL OMNETARY CONFERENCE SPEECH AND FOLLOWING PRESS CONFERENCE IN TOKYO EMPHASIZED HIS CALL FOR JAPAN AND OTHER ECONOMICALLY STRONG COUNTRIES TO SHARE CURRENT ACCOUNT DEFICITS; AND OFTEN HIGHLIGHTED SECRETARY'S REFERENCES TO YEN APPRECIATION AS ONE MEANS REDUCING JAPAN'S STRONG CURRENT ACCOUNT POSITION. INDUSTRIAL PRODUCTION AND SHIPMENTS FIGURES FOR MARCH REVISED VERY SHARPLY UPWARD. BANK OF JAPAN (BOJ) INSTITUTES RESERVE REQUIREMENTS ON FOREIGN EXCHANGE BANKS' FOREIGN IABILITIES, AT LOW LEVEL. MORE PRESS REPORTS CIRCULATE ABOUT POSSIBLE NATURE OF FURTHER RELAXATION OF JAPAN'S FOREIGN EXCHANGE CONTROLS ON SECURITIES TRANSACTIONS. BOJ WILL --
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APPARENTLY -- RELAX WINDOW GUIDANCE ON BANK LENDING. DEPARTMENT STORE SALES RECOVER IN APRIL. END SUMMARY.

2. PRESS REPORTS OF SECRETARY BLUMENTHAL'S SPEECH TO THE CLOSING SESSION OF THE INTL MONETARY CONFERENCE MAY 25 AND OF HIS PRESS CONFERENCE WHICH FOLLOWED EMPHASIZED HIS CALL FOR JAPAN AND OTHE ECONOMICALLY STRONG COUNTRIES TO

FOLLOW U.S. IN ACCEPTING CURRENT ACCOUNT DETERIORATION. PRESS PLAY ALSO HIGHLIGHTS HIS INDICATION THAT THE U.S. EXPECTS THIS YEAR A CURRENT ACCOUNT DEFICIT OF \$10 TO \$12 BIL AND WAS PREPARED TO ACCEPT SUCH A DEFICIT. ANOTHER THEME WIDELY REPORTED IS HIS ENUMERATION OF CONCRETE MEASURES WHICH MIGHT SERVE TO REDUCE JAPAN'S CURRENT ACCOUNT SURPLUS, LISTING STIMULATION OF DOMESTIC DEMAND, RATHER THAN EXPORT-LED RECOVERY; ALLOWING THE YEN TO APPRECIATE FURTHER; AND INCREASE FOREIGN AID. CONSIDERABLE ATTENTION HAS FOCUSED ON SECRETARY'S REFERENCE TO YEN APPRECIATION. HOWEVER, LEADING ECONOMIC JOURNAL, NIHON KEIZAI, BALANCES CITATION OF SECRETARY'S REFERENCES TO THE POSSIBILITY OF FURTHER APPRECIATION OF THE YEN AGAINST HIS EXPRESSION OF SATISFACTION WITH THE RECENT "HIGH YEN" TREND.

3. REVISED INDUSTRIAL PRODUCTION FIGURES FOR MARCH WHICH BECAME AVAILABLE DURING THE PAST WEEK REVEALED A SHARP UPWARD REVISION FROM PRELIMINARY ESTIMATES, GIVING CREDENCE TO ECONOMIC PLANNING AGENCY (EPA) MINISTER KURANARI'S RECENT COMMENT TO PRESS THAT GNP GROWTH IN THE FIRST QUARTER OF CY 1977 WILL BE AT AROUND A 6 PERCENT ANNUAL RATE FIGURE FOR INDUSTRIAL PRODUCTION INCREASE IN MARCH WAS REVISED UPWARD FROM THE PRELIMINARY 0.9 PERCENT TO 2.5 PERCENT (S.A., OVER THE PRECEDING MONTH). SHIPMENTS INCREASE FIGURE WAS SIMILAR REVISED UPWARD TO 2.9 PERCENT FROM THE PRELIMINARY 1.8 PERCENT. INVENTORIES DECLINED SOMEWHAT MORE RAPIDLY THAN THE PRELIMINARY ESTIMATE, BY 1.4 PERCENT AS COMPARED WITH 1.0 PERCENT UNCLASSIFIED

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PRELIMINARY. BEHIND THE SHARP REVISIONS OF THE FIGURES WERE A LARGE PRODUCTION INCREASE FOR FOOD, BEVERAGES AND TOBACCO, A CATEGORY WHICH IS NOT INCLUDED IN PRELIMINARY FIGURES, AND SHARP UPWARD REVISIONS FOR ELECTRICAL MACHINERY, PRECISION INSTRUMENTS AND NON-FERROUS METALS. REVISED INDUSTRIAL PRODUCTION FIGURE FOLLOW (PRELIMINARY APRIL ESTIMATES, JUST RECEIVED, ARE ALSO SHOWN). (INDICES, S.A., 1970 EQUALS 100: PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

	MIN., MFG PRODUCTION	PRODUCERS' SHIPMENTS	INVENTORY TO SHIPMENTS RATIO
JAN	130.0 (0.3)	134.6 (2.0)	125.6 (-1.3)
FEB	127.5 (-1.9)	132.3 (-1.7)	128.0 (1.9)
MAR	130.7 (2.5)	136.2 (2.9)	123.1 (-3.8)
APR	132.0 (1.0)	134.2 (-1.4)	124.7 (1.3)

4. THE BOJ ANNOUNED MAY 24 IMPOSITION OF A 0.25 PERCENT RESERVE REQUIREMENT ON AUTHORIZED FOREIGN EXCHANGE BANKS' FOREIGN LIABILITIES, EFFECTIVE JUNE 1 (REPORTED TOKYO

7649). THE REQUIREMENT IS IMPOSED ON OUTSTANDING BALANCE OF BTH BANKS' FOREIGN CURRENCY DEPOSITS AND OTHER FOREIGN LIABILITIES AS WELL AS NON-RESIDENT FREE YEN LIABILITIES. WE UNDERSTAND THAT THE RESERVE DEPOSIT IS TO BE IN YEN NOT REPEAT NOT FOREIGN CURRENCY. THIS MOVE WAS PRESAGED BY THE DESIGNATION LAST NOV BY THE MINISTRY OF FINANCE (MOF) OF FOREIGN CURRENCY LIABILITY ACCOUNTS WHICH WOULD BE SUBJECT TO THE RESERVE REQUIREMENT SYSTEM. BOJ ESTIMATES THAT INITIAL AMOUNT OF THE REQUIRED DEPOSITS WILL BE AROUND YEN 20 BIL (ABOUT \$70-75 MIL AT CURRENT EXCHANGE RATES). THE INITIAL RESERVE REQUIREMENT IS SO LOW AS TO HAVE A MINIMAL IMPACT ON TRADE AND FINANCING. THE REAL IMPACT OF THIS OVE ON THE FOREIGN EXCHANGE BANKS WILL DEPEND ON THE EXTENT AND NATURE OF FUTURE MEASURES OF LIBERALIZATION AFFECTING THEIR OPERATIONS E.G. RELAXATION OF YEN CONVERSIN LIMITS.

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TM PRESS REPORTS HAVE BEGUN TO CIRCULATE ABOUT THE CONTENT OF YET ANOTHER ASPECT OF THE MOF'S PROPOSED SIMPLIFICATIN AND LIBERALIZATION OF THE FOREIGN EXCHANGE CONTROL SYSTEM. SPECULATION CENTERS ON A PACKAGE MAINLY INVOLVING SECURITIES TRANSACTIONS, TO BE IMPLEMENTED IN EARLY JUNE. REPORTEDLY THE IMPENDING CHANGES INCLUDE: (A) AN INCREASE IN THE AMOUNT OF PROCEEDS FOREIGN INVESTORS IN JAPANESE BONDS CAN REMIT ABROAD IF THE BONDS ARE SOLD LESS THAN SIX MONTHS AFTER ACQUISITION. (AT PRESENT, IF BONDS ARE HELD LESS THAN SIX MONTHS, INVESTORS MAY ONLY REMIT THE LARGER OF 30 PERCENT OF THE PROCEEDS OR YEN 720,000 (ABOUT \$2,600).) (B) RELAXATION OF PRESENT RULES LIMITING THE ABILITY OF RESIDENTS TO ACQUIRE SHORT-TERM FOREIGN SECURITIES. (C) REDUCTION IN THE AMOUNT OF PROCEEDS FROM SALES OF THEIR FOREIGN SECURITIES JAPANESE SECURITY FIRMS MUST REMIT TO JAPAN WITHIN SEVEN DAYS. (IN PRINCIPLE THEY MUST REMIT TO JAPAN WITHIN SEVEN DAYS. (IN PRINCIPLE THEY MUST REMIT ALL PROCEEDS AT PRESENT.)) (D) ELIMINATION OF THE CURRENT REQUIREMENT FOR AT LEAST PRO FORMA BOJ APPROVAL PRIOR TO FOREIGN PURCHASES OF JAPANESE BONDS, SUBSTITUTING INSTEAD A POST-TRANSACTION LICENSING PROCEDURE. (E) SIMPLIFICATION OF BOJ LICENSING PROCEDURES FOR CORPORATE DIRECT INVESTMENT ABROAD.

6. IT IS REPORTED THAT THE BOJ WILL DECIDE TO EASE ITS QUANTITATIVE LIMITS ON COMMERCIAL BANK LENDING EFFECTIVE IN JULY-SEP QUARTER. A FORMAL DECISION TO RELAX WINDOW GUIDANCE IS ANTICIPATED IN AROUND MID-JUNE. IT SHOULD BE RECALLED THAT THE BOJ SETS LIMITS ON THE QUARTERLY EXPANSION OF BANK LENDING BY CITY BANKS, LONG-TERM CREDIT BANKS AND TRUST BANKS BUT THAT THE CEILINGS HAVE BEEN FOR SOME TIME

PRACTICALLY MEANINGLESS BECAUSE OF SLACK CREDIT DEMAND IN JAPAN. WHILE IT APPEARS THAT FORMAL APPROVAL BY BOJ FOR COMMERCIAL BANK LENDING INCREASES WILL STILL BE REQUIRED, IN FACT BOJ WILL ALLOW THE BANKS TO EXPAND THEIR LENDING BY AS MUCH AS THEY DESIRE.
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7. DEPARTMENT STORE SALES, SEASONALLY ADJUSTED, ROSE 19.9 PERCENT IN APRIL TO RECORD FIRST ADVANCE IN THREE MONTHS. SALES OF FOODS ROSE 5.9 PERCENT FROM PRIOR MONTH WHILE HOUSEWARES ADVANCED 5.0 PERCENT AND SALES OF OST OTHER ITEMS ALSO INCREASED.

	INDEX, S.A.	PERCENT CHANGE FROM 1970 EQUALS 100 PRIOR MONTH
JAN	260.9	5.9
FEB	255.2	- 2.2
MAR	254.0	- 0.5
APR	258.8	1.9

8. EXPORT AND IMPORT CONTRACT PRICE INDICES (1970 EQUALS 100, N.S.A., JEI 80 AND 88, RESPECTIVEY) BOTH DECLINED IN APRIL TO 136.0 AND 212.3. RESPECTIVELY.
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